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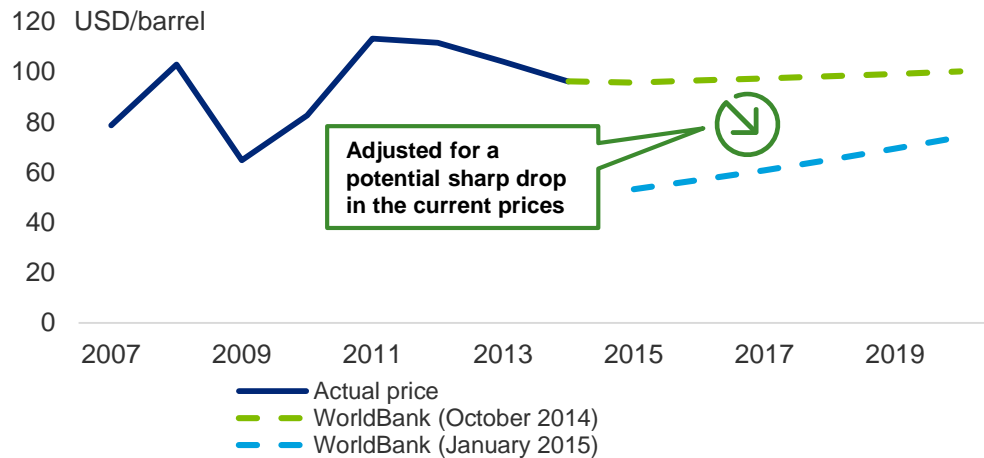
# 2015 Russian oilfield service market: current state and trends

October 2015



# The global O&G and oilfield service markets are facing uncertainty

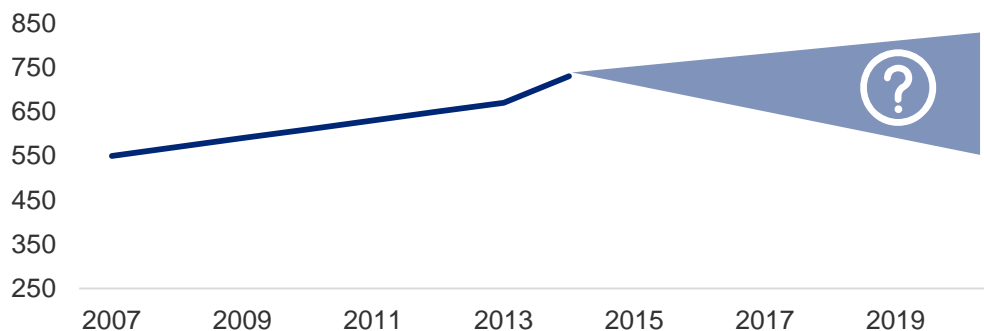
## Oil pricing forecast



## High volatility and volatile trends

- A sharp decrease in oil prices late in 2014 has led to analysts downgrading their forecasts;
- Dropping oil prices and negative expectations may significantly affect investments in production, which may result in a decreased mid-term supply;
- The market remains volatile and unpredictable, which is partly due to political and economic volatility in oil producing regions.

## Global oil service market, USD billion

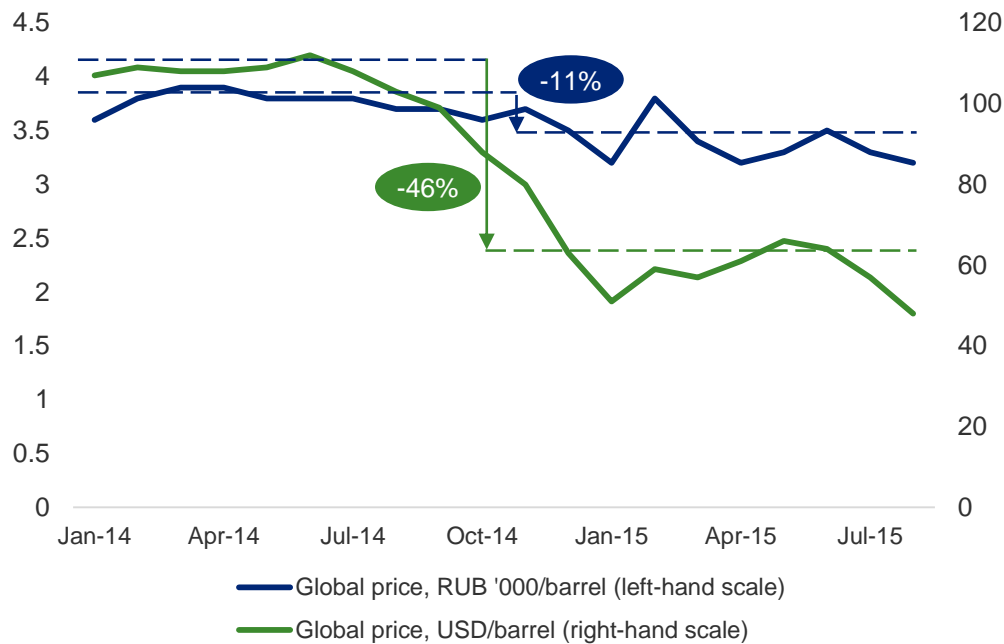


## Future uncertainties

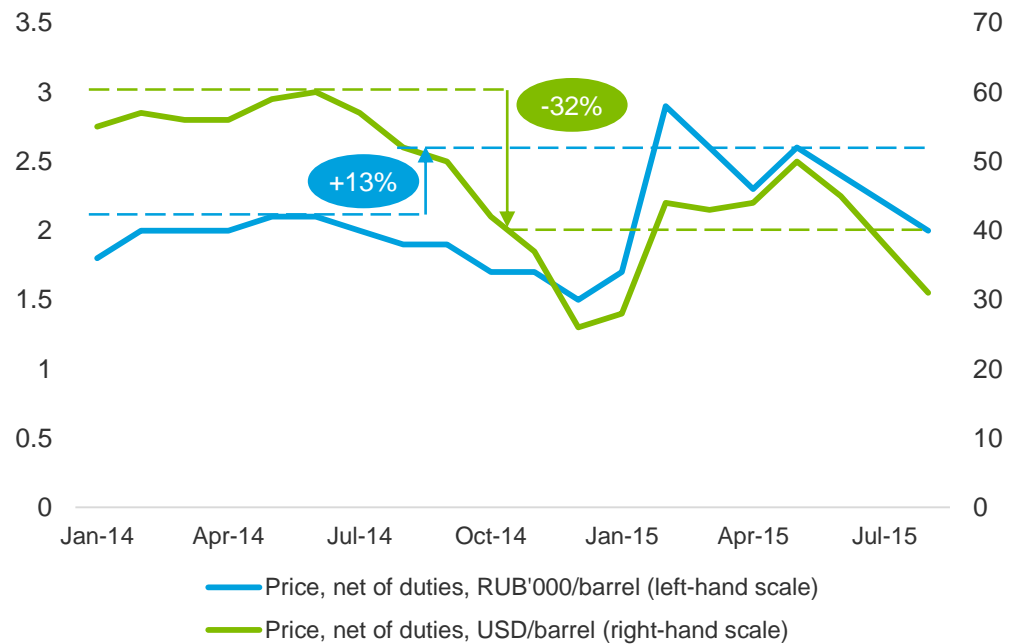
- Future uncertainties to investment plans are expected to primarily affect drilling. However, the market players have not announced any plans to reduce production in the short- and mid-term.
- Oil companies are becoming increasingly focused on efficient technologies, which may result in a more active use of horizontal drilling, hydrofracturing, and well service/workover activities at the cost of traditional drilling;
- The uncertainty is further exacerbated by the fact that the market is dependent on the response from oil companies as well as on oil prices.

# For Russian producers, a drop in oil prices is offset by the depreciating Russian rouble and lower export duties.

Oil price trends



Oil price, net of export duties

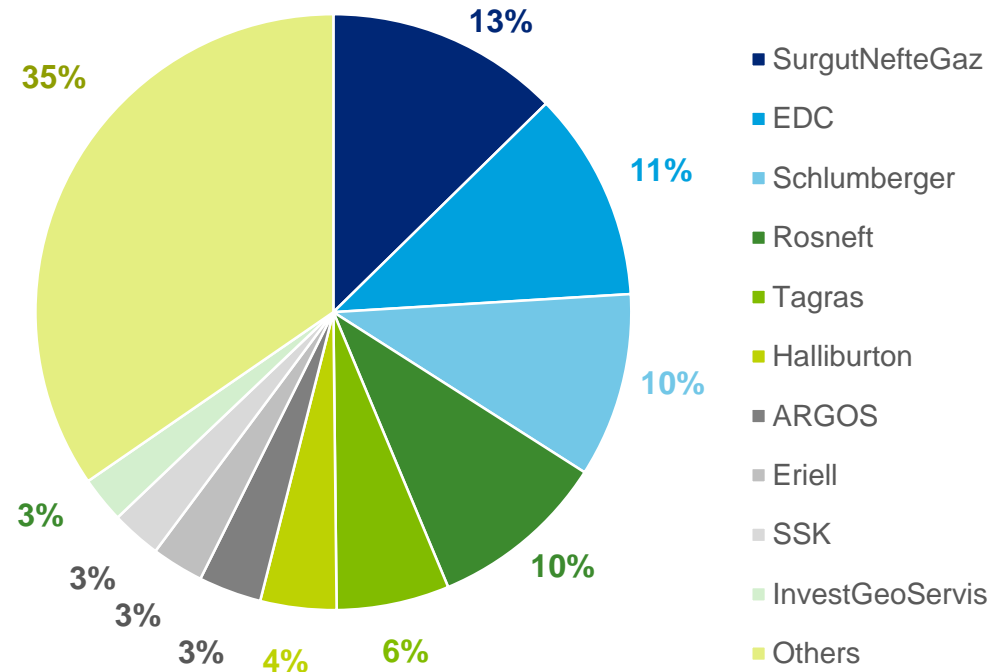


- A drop in USD oil prices has been offset by the depreciating Russian rouble, resulting in an insignificant decrease in rouble prices;
- Lower export duties have left Russian producers with the rouble revenue exceeding the "pre-crisis" level while there has been no significant decrease in the USD revenue, if compared to global oil prices;
- In terms of revenue, dropping oil prices have been offset by the depreciating rouble and lower export duties.
- However, in the near future Russian oilers may see their depreciation-driven revenue eaten by an increase in tax burden.

# Major players in the Russian oilfield service market in 2014

- SurgutNefteGaz and Rosneft service companies hold a share of 23 percent in the market. This figure is likely to rise as a result of the plans by Rosneft to expand its service capacities in 2015. Another 7 percent is held by Tagras and Targin, which are focused on a single customer;
- With the four major players enjoying 44 percent of the market, another 37 percent are held by mid-size companies, each having a market share of up to 2 percent. These companies are generally specialized in services that support well construction, well service/workover, and exploration.

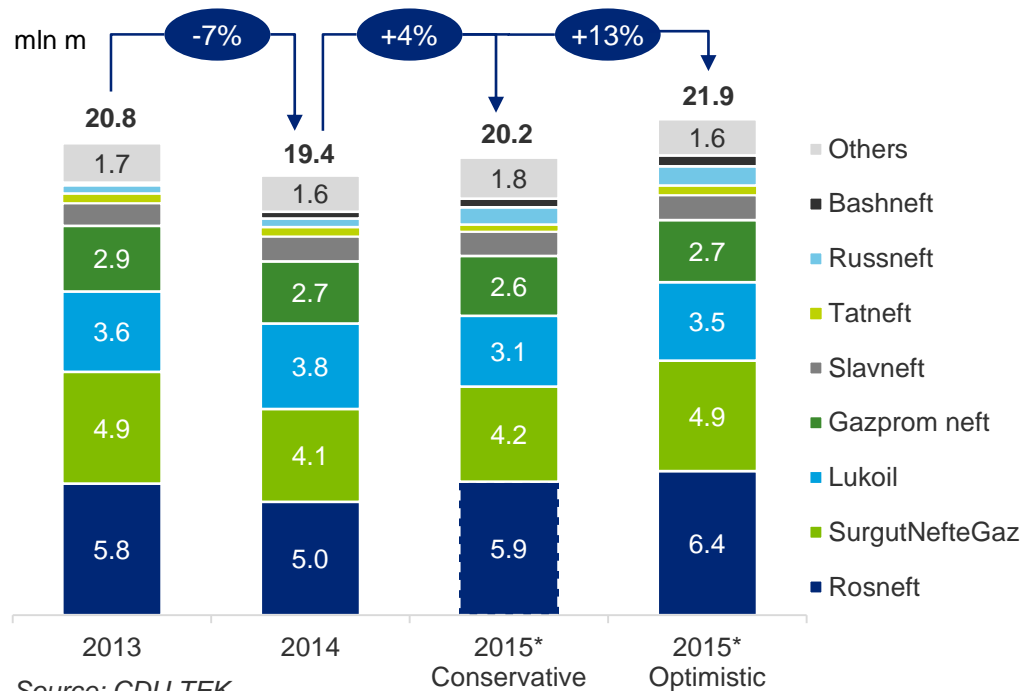
Market shares of the key players



Source: SPARK, company data and Deloitte analysis

# Production and exploration drilling

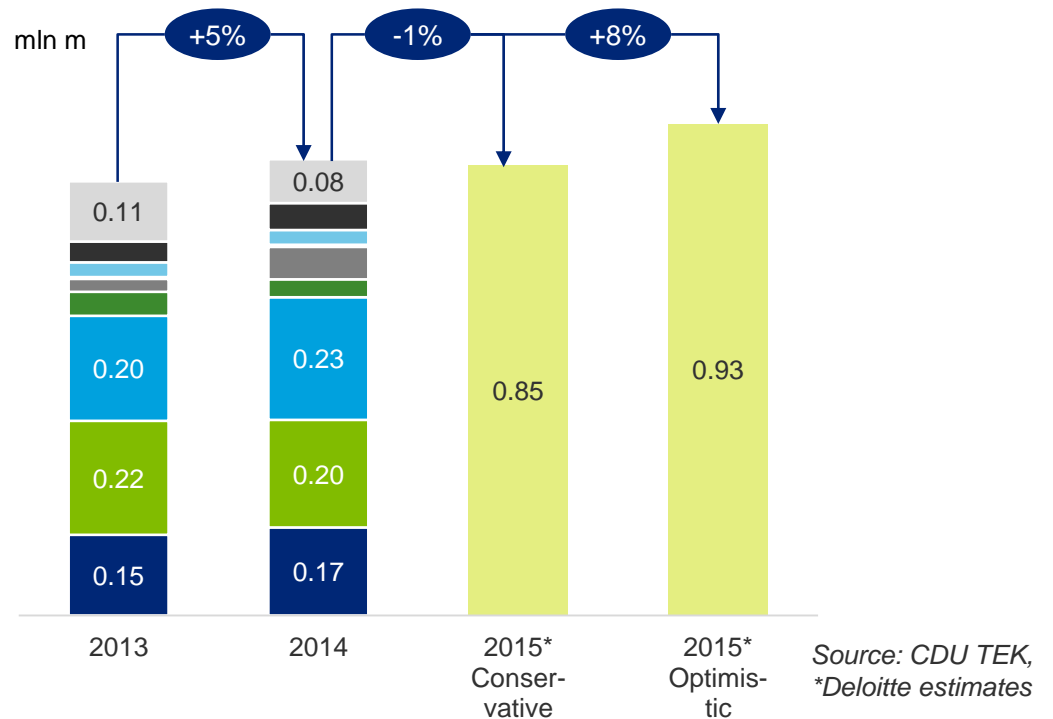
Production drilling, million m



Source: CDU TEK,  
\* Deloitte estimates

- A potential year-end growth may be 4 to 13 percent. For example, the H1 2015 saw a growth of 8 percent from the same period in 2014;
- In 2015, Lukoil became the only key player to announce a drop in drilling. The other players are planning to either expand or maintain drilling volumes.

Exploration drilling, million m



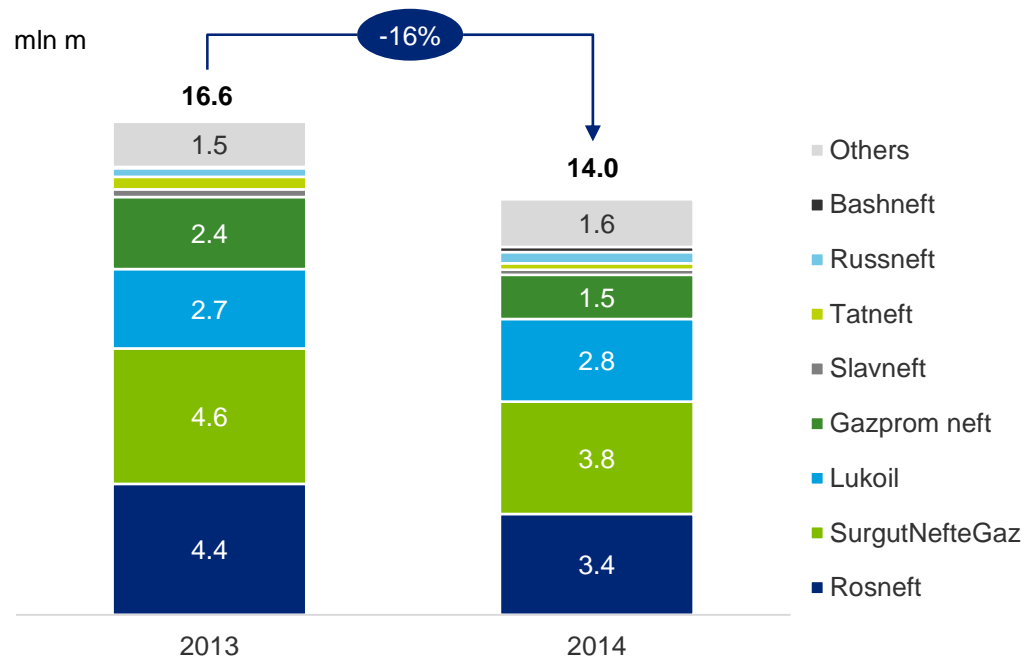
- Exploration drilling forecasts range from -1 to +8 percent, depending on the approach to be adopted by the companies during the H2 2015. The H1 2015 is up by 6 percent from the same period in 2014.

\* A conservative scenario is defined as maintaining the same drilling pace as in the H1 2015.

An optimistic scenario is defined as keeping with plans for production drilling and maintaining the same growth rates for exploration drilling

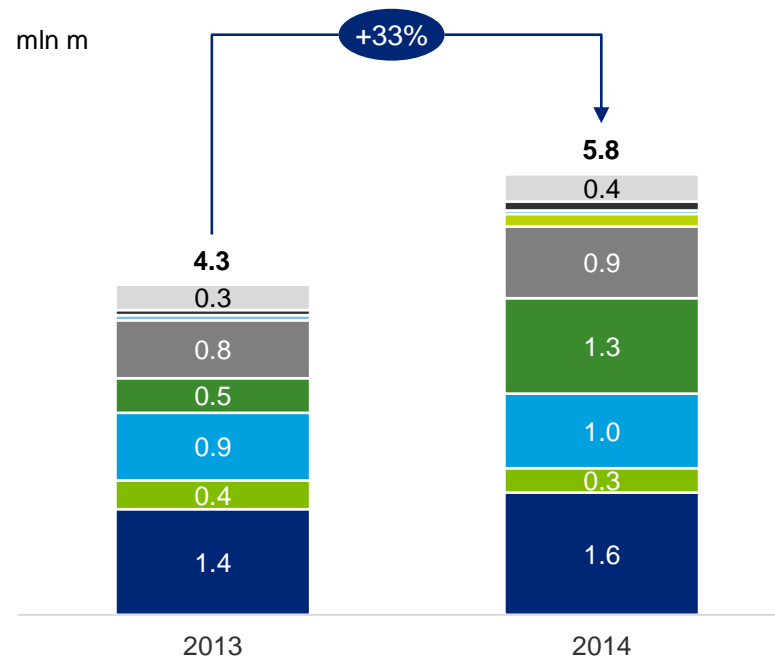
# Directional and horizontal exploratory drilling

## Directional drilling



Source: CDU TEK

## Horizontal drilling

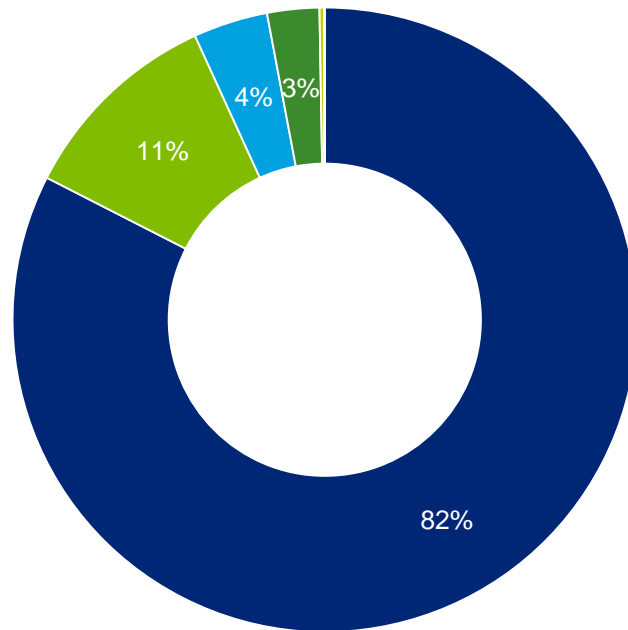


Source: CDU TEK

- The figure for wells drilled directionally in 2014 is down by 16 percent from 2013. Among the leaders, Rosneft and SurgutNefteGaz have seen the most significant decline in drilling;
- The figure for horizontally drilled wells is up by 33 percent from 2013, reaching 5.8 million kilometers. With an almost tripled increase in drilling, Gazprom Neft is the greatest contributor to the growth in drilling;
- The production drilling market seems to be heading toward more sophisticated wells at the cost of reducing a total amount of drilling.

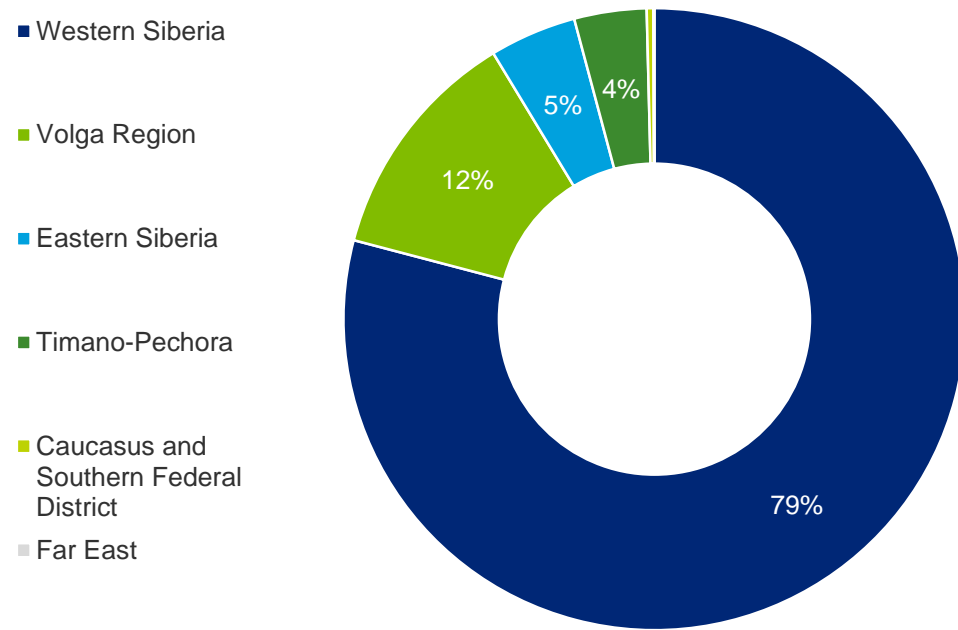
# Production wells drilled by region

Production drilling in 2013



Source: CDU TEK, \* Deloitte analysis

Production drilling in 2014

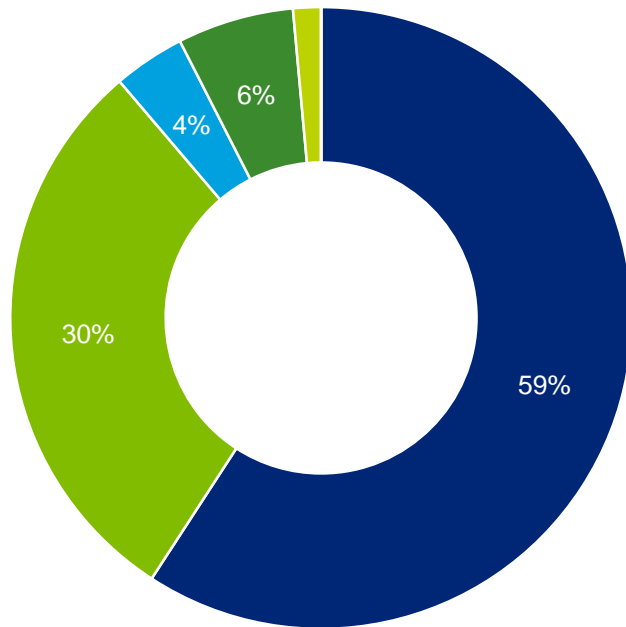


Source: CDU TEK, \* Deloitte analysis

- The regional drilling 'map' generally remains the same. Western Siberia is the sole leader, accounting for 80 percent of the total volume of drilling in Russia. This region saw only an insignificant decrease in drilling in 2014, down by 3 percent from 2013;
- The end of 2014 saw the prospective oil and gas regions (Eastern Siberia and the Far East) increase their market share by 1 percent each due to Western Siberia.

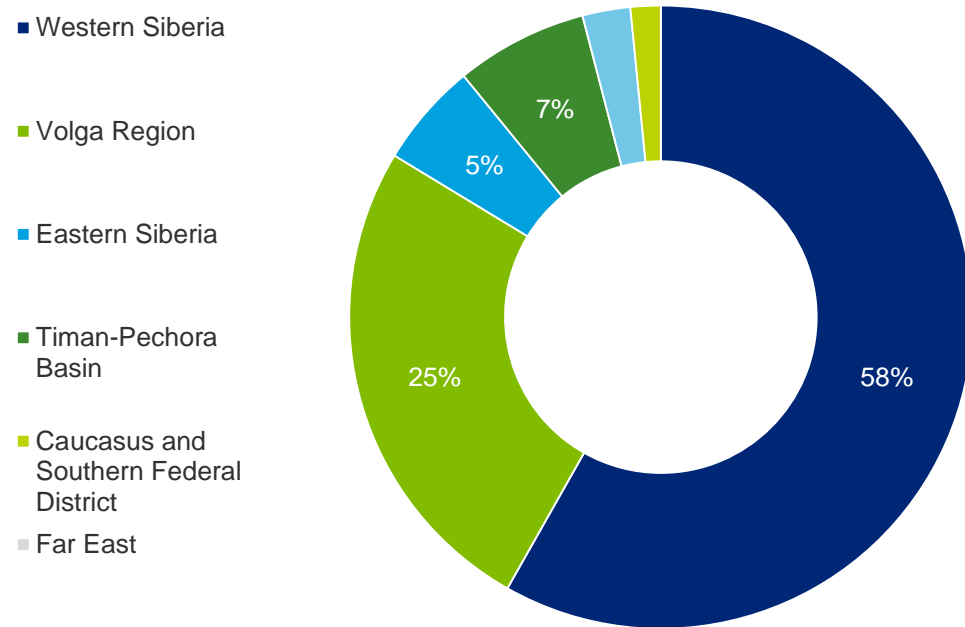
# Exploration wells drilled by region

Exploration drilling in 2013



Source: CDU TEK, \* Deloitte analysis

Exploration drilling in 2014



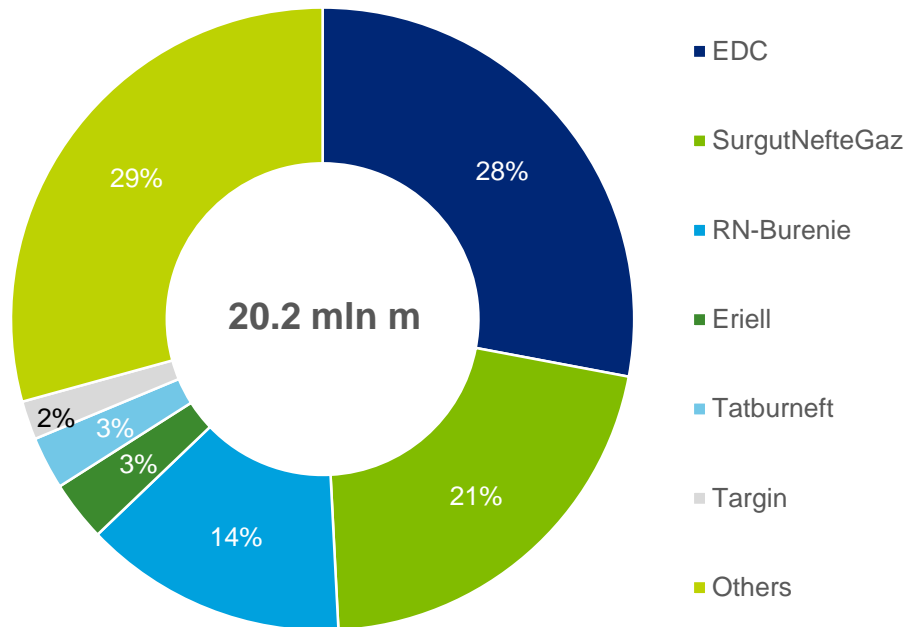
Source: CDU TEK, \* Deloitte analysis

- The regional drilling 'map' for exploration is significantly different from the production drilling 'map';
- The regions have continued to maintain generally the same positions on exploratory drilling while the Volga region has seen the most significant decrease, down by 5 percent;
- The share lost by the Volga region has been taken up by prospective oil and gas regions that have increased their share: Eastern Siberia, the Timan-Pechora Basin, the Caucasus, the Southern Federal District, and the Far East.



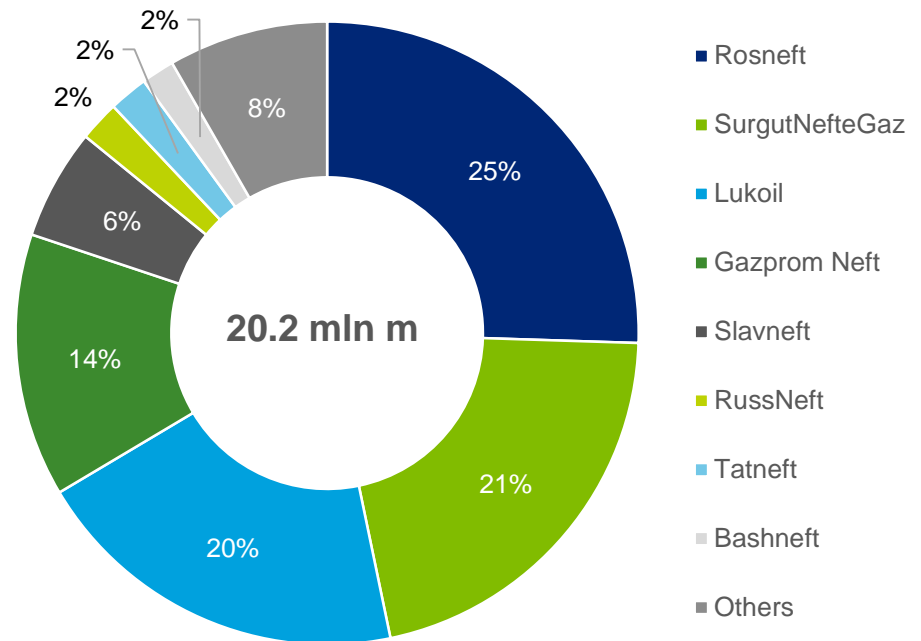
# The drilling market

Drilling supply in 2014



Source: company data

Drilling demand in 2014

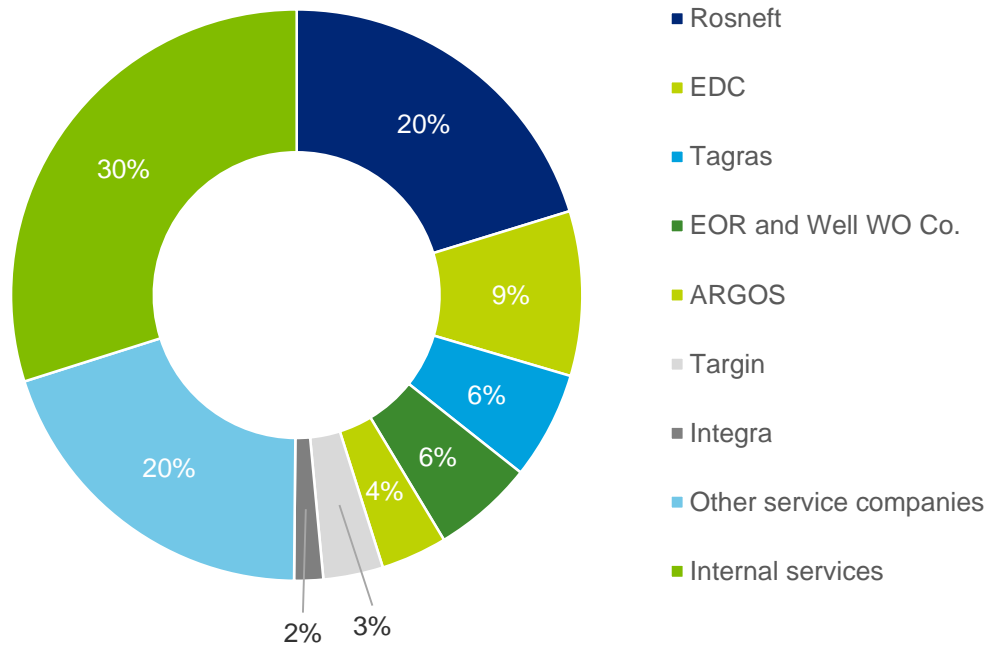


Source: CDU TEK

- The four companies that have the highest amount of drilling account for 80 percent of the drilling demand;
- The market of drilling providers is far less concentrated: EDC is the only independent provider with 28 percent of the market;
- Independent drillers may see their market share shrink if Rosneft continues to expand internal drilling services.

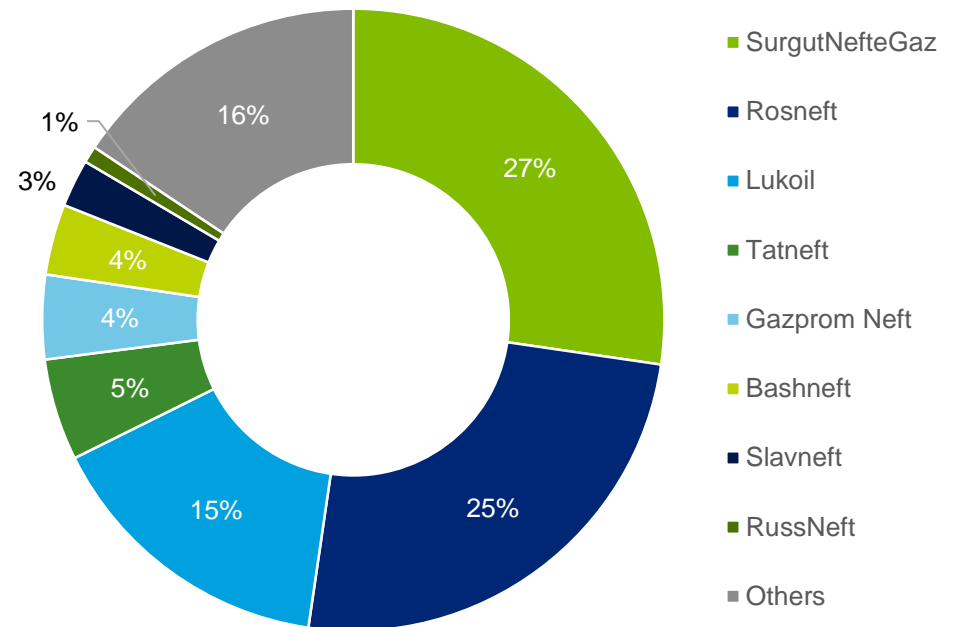
# The well service/workover market

Service/workover supply in 2014



Source: company data, Deloitte analysis, CDU TEK data

Service/workover demand in 2014



Source: CDU TEK, \* Deloitte analysis

- The four companies leading in terms of the volume of well service/workover activities account for over 73 percent of the market, with smaller companies holding a share that is twice as low as their share in the drilling activities. This means that smaller companies are focused on maintaining their existing capacities rather than on growing production;
- The market features many smaller service providers with a total share of 20 percent. A share of 9 percent makes EDC the largest independent provider in the market.

# The merger and acquisition market

## Unprecedented level of activity

### Mergers and acquisitions



- In November 2014, Halliburton and Baker Hughes, second and third largest oilfield service providers in the world, agreed to exchange their assets. The deal is expected to be closed in the H2 2015;



- In July 2014, Rosneft paid the Weatherford Group USD 398 million, acquiring eight companies that provide drilling and workover services in Russia and Venezuela;
- As a result, Weatherford's share in the Russian oilfield service market has reduced while Rosneft has obtained assets to build internal oil services to cover, to a significant extent, the needs of the head company;



- Presidential Order of 19 February 2015 has made 25 geological enterprises part of OAO Rosgeo;
- This merger will help Rosgeo pass a threshold of USD 20 billion as early as 2015 to join the leaders in the geophysical exploration market;



- In August 2015, Rosneft paid USD 140 million, acquiring full ownership of OOO Trican Well Services, a Trican subsidiary in Russia;
- As part of the deal, Rosneft has obtained assets to boost efficiency of hydraulic fracturing services and well construction processes;



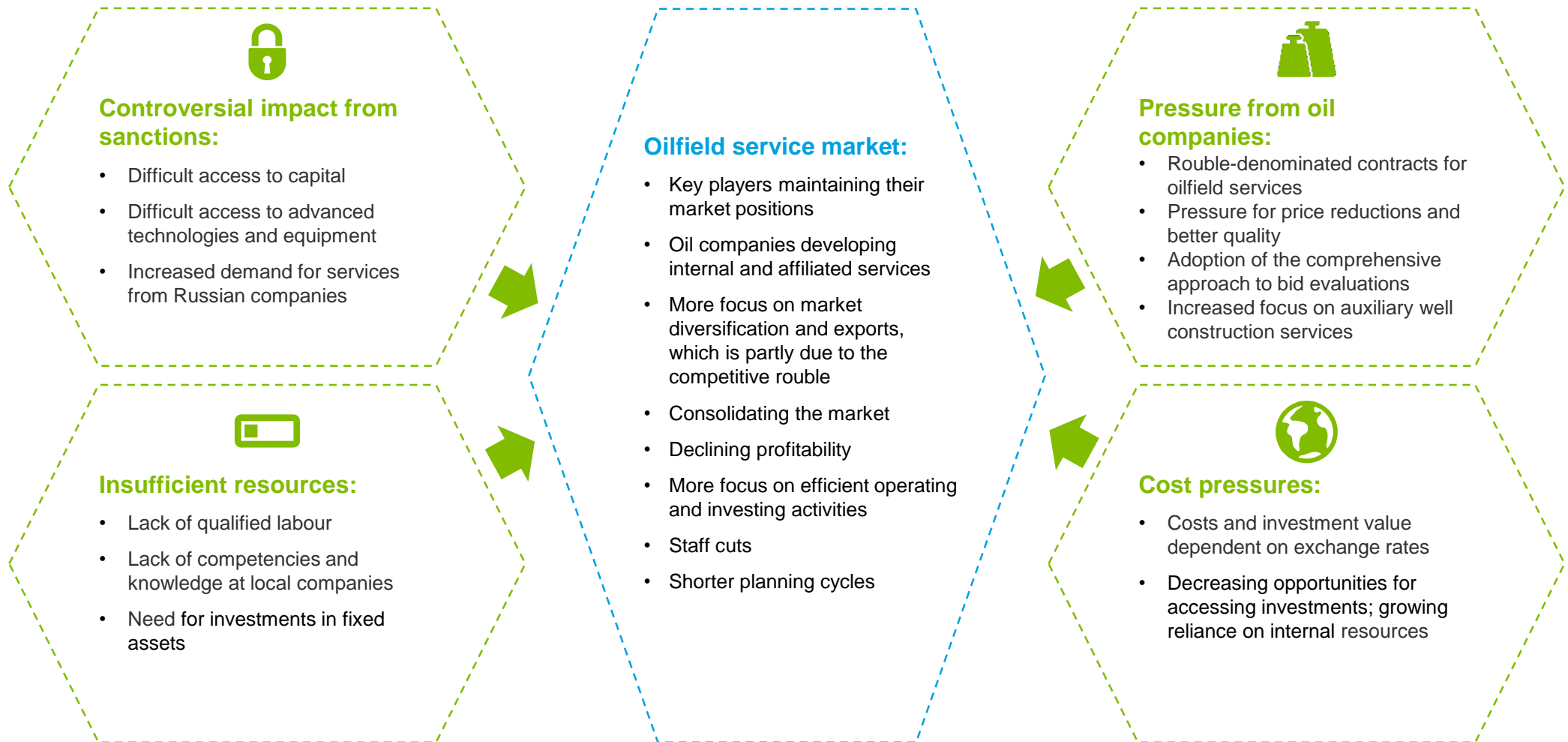
- In late January 2015, Schlumberger announced an arrangement to buy a stake of 45.65 percent in EDC at a price of USD 1.7 billion;
- With Schlumberger's plans to acquire full ownership of EDC within three years, the Russian Federal Antimonopoly Service has decided to take a closer look at the deal. As a result, the deal has been postponed;
- In September 2015, Schlumberger scrapped the deal;

### Insolvency cases



- In 2014, RU-Energy Group, a holding company providing oilfield services, was declared bankrupt due to cash flow imbalances.

# Challenges and trends in the Russian oilfield service market



Source: 2015 Oil and Gas Outlook Survey, Deloitte analysis

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## Energy & Resources regional leaders



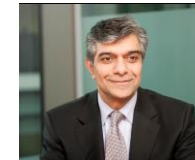
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